



THE SCOTTISH HOUSING REGULATOR

Evaluating regulatory assessment: future approach

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1. Context

- 1.1 We have been refocusing our regulatory framework towards a more risk-based and proportionate approach. This will apportion our resources better, reduce the regulatory burden on RSLs where appropriate, and align our approach with established principles of regulation. We set out our proposals for the new approach in our consultation reports in 2006.
- 1.2 We have taken account of recommendations from contemporary reviews of regulation. Such reviews urged comprehensive risk assessment so as to concentrate resources where they are most needed. The thrust of regulation is moving away from a programme of cyclical inspections, and towards a suite of interventions, which are both proportionate and less burdensome.
- 1.3 Regulators are increasingly encouraged to base future assessments on relevant and necessary information, collected from those businesses which are subject to regulation. This approach means that the businesses with whom we engage should be those facing the most complex challenges and presenting the greatest risk to us. Risk for this purpose are taken to mean the type of potential problems, the likelihood of them arising, their impact if they materialised and the implications for us as a regulator.

2. Principles – risk and proportionality

- 2.1 Our principles, first articulated in March 2006, made clear our proposals to refocus our approach to be information-led. The new approach provided scope for us to require standard information from all organisations. We would step back from close involvement with certain organisations, where we were assured about them based on our assessment of risk. In other cases, we might require additional information and assurance, and would seek a closer regulatory relationship with these. Such principles underpinned our proposals to develop Regulatory Statements. These were designed to summarise the profile of an RSL using key risk and performance indicators, in turn informing the type and amount of regulatory activity that we would have with RSLs: we use the term ‘engagement’ to describe this activity.
- 2.2 Our principles committed us to produce Regulatory Statements, using existing information wherever possible, keeping communication simple. We also undertook to maintain our focus on service quality, and to review and update our information requirements. We identified a wide range of options for engaging with RSLs including the following: less frequent interaction with those bodies with lower levels of engagement, and more frequent or intensive interaction with others; undertaking validation or verification of information returns; requesting improvement plans; using statutory intervention powers.

- 2.3 [Responses](#) to consultation about our proposals were broadly supportive of a more risk-based and targeted approach. We were encouraged to develop our definition and measurement of risk, and to undertake checks on the validity and consistency of information. We were urged to be robust as well as transparent and open in our assessments, to maintain quality control in determining how to engage with RSLs and in exercising our professional judgement.
- 2.4 We expect landlords to achieve the performance standards set for good quality services, to improve their performance and provide good services for their tenants, to manage their housing stock to meet defined standards. Landlords are also expected to run their businesses well, to manage their own governance and financial affairs. In doing so, they are expected to assess, manage and monitor risks to their own businesses.
- 2.5 Our assessment of risk takes account of the likelihood of an organisation continuing to meet these standards and expectations: we must take account of the implications of failure arising from their ability to provide services and run their business. The purpose and objectives of the regulator is to protect the interests of current and future tenants and to maintain the confidence of funding bodies, public and private, in the social housing sector. Our focus is on assessing the risks to the regulator of failure to achieve our regulatory purpose and objectives. We are not seeking to 'second-guess' the risks to RSLs, still less to manage these remotely or indirectly.

3. Pilot project 2007

3.1 Selection

- 3.1.1 We achieved our target to complete regulatory statements on 30 RSLs by March 2007. In doing so, we selected candidates for the pilot statements, from across a range of characteristics and situations. Some were selected because they had not been inspected in recent years: others showed a good grading from a recent inspection and a good performance track record. We were already actively engaged with certain RSLs for particular reasons, including improvement plans arising from a recent inspection.

3.2 Approach

- 3.2.1 We defined and clarified our terms and developed a process to collect, collate and make sense of the available information. We collated numeric data for each RSL from their regular information returns, (the APSR¹, loan portfolio information, viability assessments based on Five Year Financial Projections and annual accounts²). We made use of inspection reports,

¹ [Annual Performance Statistical Return](#) containing contextual and performance information supplied by RSLs

² The annual accounts information from RSLs is analysed and reported in the [Financial Digest](#).

and the Operating Cost Index³. We added in qualitative information on governance, SHQS delivery, and development along with screening for complaints or other representations from tenants and service users, and other regulators.

3.3. Assessment

- 3.3.1 We compared the individual RSL data to sector-wide and peer group data to benchmark performance. We also examined time trend data for both the RSL and the sector, to assess whether performance has changed in absolute terms and in relation to the sector. We presented measures as both values and percentages to highlight the scale of the issue from the perspective both of the RSL and of the sector as a whole.
- 3.3.2 We formed judgements about the pilot RSLs using the available evidence and intelligence to inform and draft our statements. In total, we produced 31 statements by March 2007, under headings of
- A. financial viability,
 - B. governance and
 - C. quality of services.
- 3.3.3 In addition to a Regulatory Summary covering relevant financial and performance statistics, the statement comprised a Regulatory Plan identifying the level of engagement and summarising the key issues. The longer explanation of the basis for engagement was contained in the full statement. Some people found the terminology surrounding these various outputs (statement, plan, summary) somewhat confusing.

3.4 Regulatory Statements

- 3.4.1 The brief Regulatory Plan outlined what we expected a landlord to tell us, and identified any additional information required. It indicated any specific areas of concern, as well as whether we planned to inspect the landlord and how soon. Of the 31 RSLs, we identified 16 as low engagement, four as medium and eleven as high. This balance is not representative of the pattern of engagement envisaged in future. You can also see sample regulatory statements determined as low, medium and high: these are annexed to this report.

3.5 Engagement

- 3.5.1 The Regulatory Plans in the pilot statements stated how we intended to interact with landlords in the short term, based on our assessment of performance and risk. We sent the pilot RSLs a

³ The [Operating Cost Index](#) (OCI) compares operating costs between RSLs. It is the result of an analysis that predicts operating costs for each RSL, based on the influence of various cost drivers. It calculates whether an RSL's actual costs are higher or lower than the model predicts.

guide which summarised the amount of interaction or contact planned with them under three levels of engagement, explained as follows:

- *Low engagement: we expect a landlord to submit standard information returns and to inform us of any significant events or change of circumstance. We may also highlight areas of risk but we would judge the landlord to be capable of dealing with these without our support.*
- *Medium engagement: we expect a landlord to submit standard information returns and to inform us of any significant events or change of circumstance. We are likely to be asking for more information from a landlord about how it is dealing with the issues we have identified. We might also request an improvement plan for a particular area.*
- *High engagement: This is where we will have a lot of contact with an organisation over the plan period. When we carry out inspections we categorise this as high engagement because of the high level of interaction we need with the landlord to do this. It does not always mean we think an organisation is high risk. If we are using our statutory powers in the plan, for example to put people onto a landlord's governing body, this is high engagement.*

Feedback suggests that the term 'engagement' was not necessarily well understood and required further clarification.

3.6 Feedback

- 3.6.1 We shared these statements with the RSLs concerned, not least to confirm the evidence. In the spring and summer of 2007, we liaised with the pilot RSLs both individually about their particular statement, and collectively to gain feedback about the process. Around two thirds of pilot RSLs attended group feedback sessions.
- 3.6.2 RSLs valued the statements in outlining and explaining the plan of engagement. RSLs valued statements in bringing together and feeding back to them the information they had supplied over the years, even though they were critical of the fact that the available data were almost 12 months out of date at the point of receipt of the statement. Many RSLs asked for the summary to be supplied to them annually, but thought that their statement should only be revised on the basis of certain triggers, so not necessarily annually.
- 3.6.3 Many RSLs felt uneasy about possible publication of financial data in the summary. They were particularly concerned with how current and potential future funders might interpret and use this information and our assessment of engagement. Some RSLs expressed concern that readers of statements (tenants, funders, etc) might assume that 'high engagement' corresponded to 'high risk'. We agreed to distinguish more explicitly in future what is meant by level of 'engagement'.
- 3.6.4 RSLs thought some important issues were not covered in sufficient depth in the statement, including tenant participation and homelessness. While RSLs acknowledged that governance is a key issue, they thought it was difficult to assess using the evidence we had used, such as whether a quorum was met.

4. Lessons learned - future approach

4.1 In addition to taking feedback from regulated bodies about their views of the pilot statements, further sessions were subsequently held within R&I involving those who produced and used the pilot regulatory statements. The purpose of this was to take a critical look at the inputs, process and outputs of the pilot project and to identify which elements of the pilot to use in future assessment, and which elements to change. We also took the opportunity of a further discussion with the Tenant Regulation Advisory Group (TRAG).

The following sections summarise the resulting appraisal, under three headings – output, process and input, and explain how these lessons will inform our approach in future.

4.2 Output(s)

4.2.1 The Regulatory Plan element in the pilot statements clearly communicated the level of engagement proposed in a language accessible to a very broad audience and welcomed by many. The narrative in the longer statement explained the evidence on which the assessment was based. Although such detailed explanations are welcome in principle, in practice they may be only be understood within a small audience of senior staff in RSLs and therefore may be of lesser value in the public domain.

4.2.2 The resources consumed in drafting and liaising with RSLs about detailed wording of Regulatory Statements were considered disproportionate. We are keen to maintain a proportionate approach to regulatory assessment, while ensuring that the statements remain accessible.

4.2.3 We do not consider it proportionate or a good use of resources to publish narrative statements about RSLs where the regulator plans a low level of engagement. However, in cases of medium and high level engagement, it is important to provide that RSL with a statement accessible to the widest possible audience. While it is possible to make greater use of general or standard comments, we think this would undermine the value of specific statements about particular landlord bodies. Therefore the Regulatory Plan will in future explain the basis of our plan for regulation for that RSL and the implications of such engagement in greater detail. This is intended to be contained on two pages, including direction to additional information.

4.2.4 A summary bringing together the statistics for particular RSLs was intended primarily for internal use by regulatory personnel, requiring specialised knowledge to interpret certain elements of the statistics and ratios. However it was also of value to managers of those RSLs. We accept that tenants should be able to access basic, current performance statistics about their landlord, consistent with the statistics already available (see [example](#)), grouped by type of performance indicator. The new agency's website will promote better public access to performance statistics profiling particular RSLs.

- 4.2.5 We may develop a further, more detailed form of statement focussed on financial matters, and available to lenders, on request. This requires further dialogue and development.
- 4.2.6 Although the focus of the statement was external, the pilot project has triggered the production of many useful outputs internal to the regulator, including detailed statistical summaries for each RSL. This includes collation of risk factors, covering service quality performance, efficiency, governance and stock quality attributes, set in context across the sector.
- 4.2.7 From time to time, we use thematic studies to pick up on wider and more general issues. Regulatory assessment may also trigger us to identify and take forward such issues through thematic studies. This could be particularly important for exploration of 'softer', qualitative matters, issues about quality of service taking account of service users' views.

4.3 Process

- 4.3.1 The pilot exercise demonstrated the resources required to organise and manage data and evidence in order to produce statements. It improved the regulator's understanding about the range of available information, scope for retrieval, analysis and interpretation including improved awareness of the opportunities and constraints in doing so. The process also made use of different kinds of intelligence held within R&I. It allowed us to capture a more rounded perspective on RSLs, and consistently across a range of parameters. In future, assessments will draw on differing expertise and perspectives from across the various teams within regulation.
- 4.3.2 Current resources require the production of statements to be focussed on a selection of RSLs. Selecting a batch of RSLs at random each year would mean that it would be several years before some were assessed at all. It is therefore considered more effective to undertake a process of information-based assessment for all RSLs, in order to determine the level of engagement. Thereafter resources can be targetted appropriately towards providing statements to those RSLs where we intend medium or high level engagement, explaining the interventions we propose.

4.4 Input

- 4.4.1 We have and use different kinds of information as inputs to our assessment – 'hard' and 'soft'. Our evidence base includes quantitative / numeric information, from various returns completed annually by RSLs (outlined earlier in this report, see section 3). At present it takes some nine months from the submission of the earliest batch of data about any given year, until outputs from the last batch of data submissions are available for that year. This precludes assessment or feedback and other outputs before February of the year after the one being reported: as such it represents a long time lapse between collection and publication of information about RSLs for any given year.

- 4.4.2 Better information systems will allow the production of information to become more efficient, robust and reliable. Moreover, once the collection of data is realigned, the process of analysis and reporting could start earlier, thus closing the gap between submission, assessment and feedback to RSLs, their consumers and lenders. We are therefore examining ways of streamlining information collection.
- 4.4.3 We will verify performance data provided by RSLs to ensure that critical data are robust and sufficient to bear the weight of our assessment. This should help to strengthen the data in the longer term and benefit RSLs themselves in benchmarking and self-assessment.
- 4.4.4 Qualitative inputs included R&I knowledge of current and ongoing governance issues for RSLs, including whistleblowing and complaints; recent inspection reports (where available); and assessments of progress towards SHQS in relation to the Standard Delivery Plan.
- 4.4.5 Criteria are being developed to inform assessment. These will include further material on quality, operating costs, and development. Further work is required in future to strengthen qualitative dimensions such as service user satisfaction, service quality, tenant participation and other issues of concern to tenants.

5. Plans for regulatory assessment from 2008

- 5.1 The purpose of regulatory assessment is to permit the regulator to make regular and informed decisions about how to engage with regulated bodies, to do so in a manner which is proportionate and allows us to target our resources. Our approach to regulatory assessment learns from the pilot in relation to the production of statements and other outputs, improves our processes and secures more robust and more pertinent measures.
- 5.2 We consider it proportionate for the regulator to produce a statement explaining the basis of its decision about engagement for a smaller number of RSLs, namely: those with whom we plan to have medium or high engagement.
- 5.3 The new approach makes better use of different kinds of information, much of which is already at our disposal. In addition we intend to improve further our collection and our use of information, to facilitate improvements to regulatory assessment. We will work towards a shorter process in future, to minimise the time lapse between submission and interpretation of data.
- 5.4 In detail we intend to pursue the following:

Output	Explain more clearly what is meant by level of 'engagement'.
	Publish annual decisions about regulatory assessment.
	Provide a detailed explanation to RSLs assessed as requiring medium or high engagement.
	Identify meaningful labels for outputs from assessment.
	Make available summaries of data on each landlord for public use, notably by tenants and other service users.
	Develop further outputs in response to feedback. These may include time-series information, bench-marking data and scope for users to define their own information requirements.
	Ensure that public outputs are expressed in plain English, and are meaningful about particular bodies.
	Identify thematic studies and research to take forward matters of broader interest arising from regulatory assessment.
Process of assessment	Undertake a holistic and consistent assessment annually for all RSLs, on which we will base our decisions about how to engage.
	Ensure that our processing and interpretation of 'soft' and 'hard' information is transparent and robust with clear mechanisms to achieve quality control.
	Ensure that our guide to regulation will make clear the regulator's requirements for standard information as constituting the minimum level of engagement. It will also show how we intend to use that information and explain the range of interventions arising from regulatory assessment.
	Establish a cross-divisional team to make assessments across the board, bringing together managers from different aspects of regulation.
	Aim to increase efficiency in the collection of evidence, and the production of reports and summaries.

Inputs	Review and realign data collection
	Clarify and define various measures of risk, and assess their relative weight against each other.
	Make inputs of 'soft' and qualitative information clearer and more transparent.
	Verify performance data provided by RSLs

6. Summary

- 6.1 Our future approach to regulatory assessment will draw on the lessons from the pilot in 2007. A new [guide to regulation](#) will make clearer and more explicit our concepts and definitions of risk and we will undertake a holistic and consistent assessment of all RSLs across the sector. We will use this assessment as the basis for our decisions each year about how to engage with particular RSLs, with regular review of the process.
- 6.2 The process will strengthen internal links within the regulatory body and we will improve our information base, redefining our information requirements in an effort to minimise possible duplication. We will selectively verify data provided by RSLs. We will make inputs of 'soft' and qualitative information clearer and more transparent.
- 6.3 We will improve reporting from and about regulatory assessment, ensuring that our outputs are meaningful about particular bodies and in plain English. We will publish summaries of data on each landlord and develop further outputs in response to feedback.

Regulation and Inspection
 Scottish Housing Regulator
 Highlander House
 58 Waterloo Street
 Glasgow G2 7DA
 Telephone 0141 271 3810

Email to shr@scottishhousingregulator.gsi.gov.uk

Sample of Low Engagement Annex 1

Regulatory Statement Eildon Housing Association

(website: www.eildon.org.uk)



Prepared 30 March 2007

Regulation Plan

How we will regulate Eildon Housing Association

We will have low engagement

- We expect the Association to submit the standard returns on an annual basis.
- We do not plan to inspect Eildon in the next two years.
- We will review this plan in two years.

How we assess this

We aim to protect the interests of tenants and to drive improvement in housing services. We need to decide what level of contact to have with an organisation. To help us decide this we assess performance, and the level of risk to the association's business, in important activities. We look at three main areas: governance or the way the association runs; viability and sustainability - this includes its financial health; and how it delivers services. We carry out our review using the information the association gives us every year about its performance. We also take account of the findings from our inspections and information that we may get from people making complaints or other regulators.

A brief context

Eildon Housing Association was formed in 1973 and registered in 1976, has charitable status and currently owns around 1,700 self-contained properties in the Scottish Borders Council area. It provides social housing and related services throughout the Borders area for people in housing need, including a large proportion of elderly people. It has a modern and growing stock of dwellings, consisting predominantly of small houses and flats.

Our performance and risk assessment

The governance at Eildon Housing Association

Eildon has a satisfactory governing body size (14 members), stable membership and well-attended meetings. When last inspected, we found that Eildon was well governed. The governing body had a wide variety of skills, experience and commitment to support the association's aims and objectives. It managed resources and risk well. From the information we have on Eildon's governance, we are satisfied that it is able to run its affairs competently.

Is the association viable and sustainable?

We want to know about demand as this helps us to understand how sustainable an organisation is. We looked at how quickly Eildon is able to let its houses, levels of right to buy and turnover. Eildon's relet times are in line with its peers', and its last inspection report indicated healthy and rising demand for its housing. In the round, we think Eildon will own enough houses to provide an adequate economic base.

We think Eildon has a strong financial base. Eildon has given us plans about its medium term financial health. From these we conclude that Eildon can continue to be viable in the medium term.

This is our assessment of Eildon's main income and funding streams:

- Rental income: Eildon charges an average weekly rent of £46 and £42 for the 2-apartment properties that constitute the bulk of its stock. These rents are comparable with the sector as a whole. In spite of its long relet times, Eildon's rental income losses from houses lying empty are low and have improved between 2004/05 and 2005/06.
- Private finance: The association has a loan facility of £16.5m which was all drawn down by the end of 2005/06. The information we have on interest cover indicates the association has ample operating surplus to cover interest payments.
- Housing association grant: Eildon had a £3.4m development programme in 2005/06 and has an estimated £4.7m programme in 2007/08 to continue its stock development.

This is our assessment of Eildon's main costs:

- Operating costs: Eildon spent less than our operating cost index model predicts for an organisation of its type.

- Unpaid rent and debt write off: Eildon's rent arrears compare well with similar RSLs. The association wrote off £0.05m of rent arrears in 2005/06, representing just less than 1% of its gross rental income. This was an increase from 2004/05, but the level is generally in line with other RSLs.
- Planned maintenance: Eildon plans to spend £4.1m over the next five years in major repairs and improvements. Given its modern stock, meeting the SHQS should not present a major financial difficulty for Eildon.
- Repairs: The cost of reactive repairs is in line with comparable RSLs at £134 per unit.

How good are the services the association provides?

At its last inspection in 2004, Eildon was found to be providing an excellent housing management service. This included providing open access to its housing list, prioritising housing need, providing tenancy information to new tenants, providing care and support services, preventing and dealing with antisocial behaviour, and a very high standard of estate management.

Eildon has set itself more challenging targets for emergency and routine repairs than other rural RSLs, but these targets are almost all met. At its last inspection the repairs service was found to have an excellent performance in completing responsive repairs and was using tenant feedback to improve the quality of the service.

Sample of Medium Engagement Annex 2

Regulatory Statement Sanctuary (Scotland) Housing Association

Prepared 30 March 2007



Regulation Plan

How we will regulate Sanctuary (Scotland) Housing Association

We will have medium engagement

- We expect Sanctuary (Scotland) to submit the standard returns on an annual basis.
- We expect Sanctuary (Scotland) to review its performance in collecting unpaid rent and in meeting its targets for emergency and urgent repairs.
- We are in contact with Sanctuary (Scotland) about its proposals for changes to its constitutional arrangements and the proposal from Beechwood Housing Co-operative for a transfer of engagements to Sanctuary (Scotland).
- We do not plan to inspect Sanctuary (Scotland) in 2007/08. We may inspect Sanctuary (Scotland) in 2008/09.
- We will review this plan in one year.

How we assess this

We aim to protect the interests of tenants and to drive improvement in housing services. We need to decide what level of contact to have with an organisation. To help us decide this we assess performance, and the level of risk to the association's business, in important activities. We look at three main areas: governance or the way the association runs; viability and sustainability - this includes its financial health; and how it delivers services. We carry out our review using the information the association gives us every year about its performance. We also take account of the findings from our inspections and information that we may get from people making complaints or other regulators.

A brief context

We registered Sanctuary (Scotland) Housing Association in 1998. The association is charitable and currently owns 2,140 properties in seven local authority areas. It

rents these at charges people on low incomes can afford. Almost half of its properties are new build houses. It also has 521 flats in high rise blocks. Sanctuary (Scotland) is a subsidiary of Sanctuary Housing Association, which is registered with the Housing Corporation in England. The parent association provides management and administration services under a contract.

Our performance and risk assessment

The governance at Sanctuary (Scotland)

From the information we have we think Sanctuary (Scotland) is able to run its affairs competently, with little risk.

Because Sanctuary (Scotland) is a subsidiary two of its board members are nominees from the parent organisation - Sanctuary Housing Association. As a subsidiary, Sanctuary (Scotland) is controlled by its parent but must have enough independence to carry out its business.

The board at the association is stable.

Sanctuary (Scotland) wishes to change its constitution and we will discuss this with the association.

Beechwood Housing Co-operative wishes to transfer to Sanctuary (Scotland). The transfer of engagements is due to take place during 2007.

Is the association viable and sustainable?

We think Sanctuary (Scotland) is exposed to some financial risk and that this is explained by the type of stock it has or its funding structure. Sanctuary has given us plans about its medium term financial health. From these we conclude that Sanctuary (Scotland) can continue to be viable in the medium term.

We want to know about demand as this helps us to understand how sustainable an organisation is. We looked at how quickly Sanctuary (Scotland) is able to let its houses, levels of right to buy and turnover. From this we think the association will be able to let enough houses to give it an adequate economic base.

This is our assessment of Sanctuary (Scotland)'s main income and funding streams:

- Rents: Sanctuary (Scotland) has an average weekly rent of £55.18. It has increased rents at about the same rate as the rest of the sector in recent years.
- Private finance: The association has a total loan facility of £58m and reports draw down of £51m (2005/06). The information we have on interest

cover indicates the association will generate enough operating surplus to cover interest payments.

- Housing association grants: The association anticipates that it will get grant for all of its development projects.

This is our assessment of Sanctuary (Scotland)'s main costs:

- Operating costs: Sanctuary (Scotland) increased its management and maintenance costs per unit from £654 in 2003/04 to £940 in 2005/06. Sanctuary (Scotland) spent £60,000 more than our operating cost index model predicts for an organisation of its type (2004/05). Its costs are projected to rise over the next four years. We do not think this is a risk as income rises steadily in proportion with the growth of the Association.
- Empty house rent loss: Sanctuary (Scotland) reports that it lost 0.61% (£29,452) of its rent last year because of houses lying empty. This is good performance it is lower than the national median and lower than its peer group performance.
- Unpaid rent and debt write off: Tenants and former tenants owe Sanctuary (Scotland) £325,782 (6.8%) for rent. This has risen over the last three years by £159,363 (2%). The association wrote off £994 (under 0.1% of its gross rental income) in 05/06 for rent arrears.

A non-technical arrear is rent a tenant owes to a landlord after any outstanding Housing Benefit claims or payments have been taken into account. Since 03/04 this has risen by £134,751 (1.7%).

Because the association is showing declining performance in this area we will ask it to review its performance in collecting unpaid rent.

- Planned maintenance: Sanctuary (Scotland) plans to invest around £1.43 million in major repairs and improvements in the next four years.

The association carried out a self assessment of its ability to meet the Scottish Housing Quality Standard (SHQS). Sanctuary (Scotland) predicts in its Standard Delivery Plan that it will meet the SHQS deadline of 2015 for all of its houses.

- Repairs: The association plans to gradually increase its costs from £0.471m (2007/08) to £0.602m (2010/11). Sanctuary (Scotland)'s targets for repairs are longer than the national target median. It reports declining performance in meeting the targets for emergency and urgent repairs.

Because the Association is showing declining performance against targets that are longer than most of the sector we will ask it to review its performance in meeting targets for emergency and urgent repairs.

How good are the services the association provides?

We last inspected the association in 2000 and gave it an overall B grade - this is a good performance. We gave it B grades for its maintenance and housing management services. During the inspection the association showed us that it was improving its services. Because of this, and the information we have reviewed, we think, generally, there is little risk in this area and that the association will continue to deliver good services. But, because the association is not improving its performance in collecting unpaid rent and in meeting its repairs targets, we have asked it to review these areas.

Sample of High Engagement Annex 3

Regulatory Statement

Clydesdale Housing Association

Prepared March 2007 : updated December 2007



We re-inspected Clydesdale Housing Association in May 2007 and found that the Association had successfully tackled the weaknesses identified in our previous inspection report, published in November 2004.

Clydesdale's strong performance has resulted in "B" or "Good" grades being awarded to the Association for both Housing Management and Property Services."

Regulation Plan update (December 2007) How we will regulate Clydesdale Housing Association

We will have low engagement

- **We expect the Association to submit the standard returns on an annual basis.**
- **We will review our plans for engagement in 3 years' time**

http://www.clydesdale-housing.org.uk/podium/clydesdale/ces_general.nsf/wpg/about_us-inspection_report

Regulatory Statement Clydesdale Housing Association

Prepared 30 March 2007



Regulation Plan

How we will regulate Clydesdale Housing Association

We will have high engagement

- We expect the Association to submit the standard returns on an annual basis.
- We will monitor the progress the association is making to achieve the targets in its inspection improvement plan.
- We will re-inspect Clydesdale in 2007/08.
- We will review this plan after the re-inspection.

How we assess this

We aim to protect the interests of tenants and to drive improvement in housing services. We need to decide what level of contact to have with an organisation. To help us decide this we assess performance, and the level of risk to the association's business, in important activities. We look at three main areas: governance or the way the association runs; viability and sustainability - this includes its financial health; and how it delivers services. We carry out our review using the information the association gives us every year about its performance. We also take account of the findings from our inspections and information that we may get from people making complaints or other regulators.

A brief context

We registered Clydesdale Housing Association in 1987. It has charitable status. The association owns 668 properties in rural South Lanarkshire and the Clyde Valley. It rents these at charges people on low incomes can afford. About half of its properties are houses; the majority of the rest is tenemental flats. Clydesdale built 75% of its properties after 1982. The average weekly rent is £47.36 (at March 06).

Our performance and risk assessment

The governance at Clydesdale

From the information we have we think Clydesdale is able to run its affairs competently. Clydesdale has eleven management committee members. The management committee is stable and committee member attendance is similar to the sector average at 73%. Four committee members are tenants.

In 2005/06 the association had 20% turnover in its senior staff. Overall, staff turnover in the same year was higher than the national median at 8.5%. We think there is a slight risk because of this level of turnover in a staff of twelve people.

After its last inspection we asked the association to develop a plan to improve its services. We have been monitoring this. From the information we have, we think the association has been achieving the improvements it needs to make.

Is the association viable and sustainable?

We want to know about demand as this helps us to understand how sustainable an organisation is. We looked at how quickly Clydesdale is able to let its houses, levels of right to buy and turnover. From this, we think Clydesdale will own enough houses to provide an adequate economic base.

Clydesdale reports one sixth of its properties are in low demand. But the association is actively re-letting all of these properties and had let them all at the end of March 2006. The association has also improved the time it takes to re-let its houses from 42 days to 14 days.

We think Clydesdale has a stable financial base. From the plans it has given us we conclude that Clydesdale can continue to be viable in the medium term.

This is our assessment of Clydesdale's main income and funding streams:

- Rents: Clydesdale has an average weekly rent of £47.36. This is lower than the national average of £50.27. It has increased rents at about 1% above the retail price index.
- Cash and reserves: At the end of financial year 2005/06 Clydesdale's annual accounts showed it had almost £2 million in reserves. It had about £0.600 million in cash balances.
- Private finance: Clydesdale is using private finance and plans to borrow more to partly fund it building new houses. We think it has scope in its income to pay the interest.

- Income from other activities: These activities include, for example, development, wider role and agency services. Because the association is not always covering its costs for these we need to know more about this.

This is our assessment of Clydesdale's main costs:

- Operating costs: In 2004/05 Clydesdale spent £200,000 more than our operating cost index model would predict for an organisation of its type. Clydesdale has increased its management and maintenance overhead costs by 34% since 2003/04. At £993 per unit these are in the top quartile of its peer performance. We think there is a risk to the business if it does not have good plans to use this extra overhead resource effectively.
- Empty house rent loss: Clydesdale has reduced the money it loses from empty houses in both percentage and monetary terms over the last three years. It reports that it lost £9,157 (0.5%) of its rent in 2005/06 because of houses lying empty. This performance is lower than the sector median of 0.8% and its peer group performance of 1.1%. The amount of money it loses has decreased over the last three years by £8,829 (0.8%). We think this is a low risk to its business.
- Unpaid rent and debt write off: At March 2006 tenants and former tenants owed Clydesdale £94,690 for rent. This is 5.4% of its gross rental income. This is slightly higher than the sector median of 5.2% and its peer group performance of 4.9%. Although this is a decrease of just over 0.8% in percentage terms, it is an increase of £6,200 in the money tenants owe. During the same period Clydesdale wrote off £17,886 of unpaid rent.

A current tenant non-technical arrear is rent a tenant owes that is not eligible to be covered by housing benefit. Since 2003/04 the association has reduced its non-technical arrears from 2.6% to 2.1% of its gross rental income. It reports lower figures than its peer performance of 2.5% and the sector median of 2.8%.

Since 2004/05 Clydesdale has reduced the percentage of tenants owing more than 13 weeks rent by 0.6% to 3.4%. Its performance is in the second quartile.

The association is showing some improving trends in its arrears and is now performing better than peer performance and sector medians.

- Planned maintenance: Clydesdale plans to invest around £2 million in major repairs and improvements in the next four years. The association predicts it will meet the Scottish Housing Quality Standard by 2015.
- Repairs: The association plans to maintain its costs at the same level in the medium term. This is about £0.270 million each year.

Clydesdale's targets for urgent and routine repairs are similar to the national medians but its 24 hour target for carrying out emergency repairs is longer.

Since 2003/04 Clydesdale reports improved performance across all three repairs categories by an average of 10%. In 2005/06 it reported a 100% response for its emergency repairs within its target. Its urgent repairs performance rose by 12% to 96.6%. Its routine repairs performance improved by 6% to 94.9%.

Because of the improvements Clydesdale is reporting we think that this is a low risk.

How good are the services the association provides?

We last inspected the association in 2003 and gave it D grades for its maintenance and housing management services. This means we thought it had poor performance. Since then Clydesdale has developed a plan to improve the way it delivers its services and we have been monitoring its progress. From the information we have, we think that Clydesdale has been improving its performance. We will re-inspect the association to make sure this is the case.



The Scottish
Government

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